

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

Financial Statements
With Independent Auditor's Report
As of and for the Year Ended
December 31, 2014

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

Financial Statements
With Independent Auditor's Report
As of and for the Year Ended
December 31, 2014

C O N T E N T S

	Statement	Page No.
Independent Auditor's Report		2
Financial Statements:		
Statement of Financial Position	A	5
Statement of Activities	B	6
Statement of Cash Flows	C	7
Notes to the Financial Statements		8
	Schedule	Page No.
Supplemental Information:		
Schedule of Compensation, Benefits, and Other Payments to Agency Head	1	16
Status of Prior Year Audit Findings	2	17
Schedule of Insurance Policies in Force	3	18
Independent Auditor's Reports Required by <i>Government Auditing Standards:</i>		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		20
Current Year Findings and Management's Corrective Action Plan		22

M. CARLEEN DUMAS
Certified Public Accountant
369 Donaldson Road. Calhoun, Louisiana. Telephone 318/644-5726

Independent Auditor's Report

BOARD OF DIRECTORS
POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

Report on the Financial Statements

I have audited the accompanying financial statements of Point Wilhite Water System, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Member of the American Institute of Certified Public Accountants
Member of the Society of Louisiana of Certified Public Accountants

BOARD OF DIRECTORS
POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana
Independent Auditor's Report

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Point Wilhite Water System, Inc., as of December 31, 2014 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Compensation, Benefits, and Other Payments to Agency Head and the Status of Prior Year Audit Findings are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Schedule of Insurance Policies in Force has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated May 18, 2015, on my consideration of Point Wilhite Water System, Inc.'s internal control over financial reporting and on my tests of the system's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Point Wilhite Water System, Inc.'s internal control over financial reporting and compliance.

/s Carleen Dumas
Calhoun, Louisiana
May 18, 2015

FINANCIAL STATEMENTS

Statement A

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

STATEMENT OF FINANCIAL POSITION
December 31, 2014

ASSETS

Current assets:

Cash	\$115,577
Accounts receivable (net of allowance for uncollectible accounts)	<u>39,705</u>
Total current assets	155,282
Cash - designated for debt service	99,138
Investments - certificates of deposit - designated for debt service	37,709
Other assets	1,200
Property, plant, and equipment (net of accumulated depreciation)	<u>1,379,772</u>
 TOTAL ASSETS	 <u><u>\$1,673,101</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$16,055
Accrued interest payable	11,736
Current portion of loans payable	54,249
Customer meter deposits payable	<u>42,809</u>
Total current liabilities	<u>124,849</u>
Long-term liabilities:	
Loans payable	<u>920,972</u>
Total liabilities	1,045,821
Net assets - unrestricted	<u>627,280</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$1,673,101</u></u>

See accompanying notes.

Statement B

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

Operating Revenues:

Water sales	\$237,619
Meter installations	3,500
Total operating revenues	<u>241,119</u>

Operating Expenses:

Advertising and promotion	468
Automobile expense	387
Bad debt expense	9,830
Bank charges	345
Business licenses and permits	2,501
Computer and internet	240
Contract labor	8,557
Depreciation	41,245
Dues and subscriptions	300
Insurance	4,502
Loan service fees	3,958
Office supplies	296
Outside services	9,817
Postage and delivery	7,620
Professional fees	30,893
Repairs and maintenance	98,059
Telephone expense	437
Utilities	25,225
Total operating expenses	<u>244,680</u>

Operating Income**Non-Operating Revenue (Expenses):**

Interest income	59
Interest expense	(38,311)
Total non-operating revenue (expenses)	<u>(38,252)</u>

Decrease in Net Assets**Net Assets at Beginning of Year****Net Assets at End of Year**

(41,813)
<u>669,093</u>
<u>\$627,280</u>

See accompanying notes.

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in net assets	(\$41,813)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation expense	41,245
Bad debt expense	9,830
Increase in accounts receivable	953
Increase in accounts payable	11,821
Increase in customer deposits payable	1,463
Interest income	(59)
Interest expense	38,311
Total adjustments	<u>103,564</u>
Net cash provided by operating activities	<u>61,751</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal on long-term debt	(52,904)
Interest on long-term debt	<u>(39,007)</u>
Net cash used by financing activities	<u>(91,911)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	59
Increase in designated investments	(19)
Increase in designated cash	<u>(21)</u>
Net cash provided by investing activities	<u>19</u>

NET DECREASE IN CASH (30,141)

CASH AT BEGINNING OF YEAR 145,718

CASH AT END OF YEAR \$115,577

See accompanying notes.

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

NOTES TO THE FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF ACTIVITIES

Point Wilhite Water System, Inc., is a nonprofit organization domiciled in Downsville, Louisiana, and organized under the provisions of Louisiana Revised Statutes 12:201-269. The water system is governed by a five member board of directors who are members of the water system and who are elected by members of the water system. Point Wilhite Water System, Inc., provides water to members residing within the territorial boundaries of the water system. The water system has approximately 727 members and no employees.

B. INVESTMENTS

At December 31, 2014, the water system's investments consisted of nonnegotiable certificate of deposits with original maturities that exceed 90 days that are reported in the accompanying financial statements at cost.

C. RECEIVABLES

Accounts receivable consist of amounts due from members for water service provided prior to year end. Receivables are reported net of an allowance for uncollectible accounts that is an estimate based on historical collection percentages and management's evaluation of the amount of outstanding receivables that are considered uncollectible. Nonpayment of customer accounts within ten days from the due date are subject to a 10% late penalty. Accounts not paid within ninety days from the due date are cut-off. Past due accounts are written off when they are considered uncollectible by management.

D. FIXED ASSETS

Major improvements to the water system, buildings, and equipment purchases are capitalized by the water system. Fixed assets are recorded at actual cost. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over estimated useful lives of 50 years for the water

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana
Notes to the Financial Statements (Continued)

production and distribution system and 5 years for buildings. Depreciation expense for the year ended December 31, 2014 was \$41,245.

E. INCOME TAX STATUS

Point Wilhite Water System, Inc., is a nonprofit organization that operates as an organization that is exempt from federal income taxes. However, the water system has not filed an application with the Internal Revenue Service for recognition of exemption.

F. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. INTEREST COSTS

The following provides disclosure on interest costs for the year ended December 31, 2014:

Total interest cost expensed	\$38,311
Total interest cost capitalized	<u>NONE</u>
Total interest costs incurred	<u>\$38,311</u>

H. FUNCTIONAL ALLOCATION OF EXPENSES

Point Wilhite Water System, Inc.'s, only activity is to provide water service to its members. All costs incurred by Point Wilhite Water System, Inc., are incurred for the purpose of providing water service; therefore, it is not feasible to allocate expenses between program services and support services.

2. DEPOSITS IN FINANCIAL INSTITUTIONS

At December 31, 2014, the water system had cash and investments - certificates of deposit (book balances) as follows:

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana
Notes to the Financial Statements

Checking accounts	\$214,715
Certificates of deposits	<u>37,709</u>
Total	<u><u>\$252,424</u></u>

At December 31, 2014, the District had \$253,114 in deposits (collected bank balances). These deposits are secured from risk by \$250,100 of federal deposit insurance and \$92,513 of pledged securities held by an unaffiliated bank in the name of the fiscal agent bank (GASB Category 3).

3. RECEIVABLES

Receivables at December 31, 2014 consist of the following:

Billed water sales	\$29,613
Unbilled water sales	12,419
Less - allowance for uncollectible accounts	<u>(2,327)</u>
Net	<u><u>\$39,705</u></u>

For the year ended December 31, 2014, the total amount billed for water services was \$245,260 with an average monthly billing per customer of \$25.23. The water system had 727 active customers at December 31, 2014. Residential customers are billed \$12.50 for the first 2,000 gallons of water used plus \$3.75 per thousand gallons for consumption over 2,000 gallons. Commercial customers are billed \$30 for the first 5,000 gallons of water used plus \$3.25 per thousand gallons for consumption between 5,001 and 50,000 gallons and \$2.75 per thousand gallons for consumption over 50,000 gallons. New customers are charged a \$50 refundable meter deposit fee and a \$500 meter installation fee. Customers are charged a \$25 reconnect fee when service is disconnected for nonpayment.

4. CAPITAL ASSETS

A summary of capital assets at December 31, 2014 follows:

	Balance at January 1, 2014	Increases	Decreases	Balance at December 31, 2014
Capital assets not being depreciated:				
Land	<u>\$1,600</u>	<u>NONE</u>	<u>NONE</u>	<u>\$1,600</u>
Capital assets being depreciated:				

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana
Notes to the Financial Statements

	Balance at January 1, 2014	Increases	Decreases	Balance at December 31, 2014
Water system	\$2,051,765			\$2,051,765
Buildings	3,241			3,241
Total capital assets being depreciated	2,055,006	NONE	NONE	2,055,006
Less accumulated depreciation for:				
Water system	632,510	\$41,083		673,593
Buildings	3,079	162		3,241
Total accumulated depreciation	635,589	41,245	NONE	676,834
Total assets being depreciated, net	1,419,417	(41,245)	NONE	1,378,172
Total assets	<u>\$1,421,017</u>	<u>(\$41,245)</u>	<u>NONE</u>	<u>\$1,379,772</u>

5. LOANS PAYABLE

At December 31, 2014, there is a total of \$975,221, remaining on the principal balances of three loans. The original amounts of the loans totaled \$1,305,900. Two of the loans were obtained from the United States Department of Agriculture - Rural Development and one was obtained from the Louisiana Department of Health and Hospitals Drinking Water Revolving Loan Fund. The loans are secured by mortgages of certain properties owned by the water system that are described within the related instruments of mortgage and the pledge of revenues. Proceeds from the loans were used to fund a portion of the cost of the construction and acquisition of the water system's fixed assets.

The following is a summary of loans payable transactions for the year ended December 31, 2014:

Loans payable at January 1	\$1,028,125
Reductions	<u>(52,904)</u>
Loans payable at December 31	<u>\$975,221</u>

Loans payable at December 31, 2014 are comprised of the following individual loans:

1978 \$121,700 Promissory Note due to USDA Rural Development in monthly installments of \$598 through 2018; interest at 5 percent.	\$21,132
---	----------

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana
Notes to the Financial Statements

1992 \$259,200 Promissory Note due to USDA Rural Development in monthly installments of \$1,369 through 2032; interest at 5.625 percent. \$183,089

2008 \$925,000 Promissory Note due to Louisiana Department of Health and Hospitals in twenty annual installments of principal based on percentages specified in the note and semi-annual installments of interest at 3.45 percent through 2028. 771,000

Total \$975,221

The annual requirements to amortize all loans outstanding at December 31, 2014, are as follows:

Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$54,249	\$37,230	\$91,479
2016	56,730	35,265	91,995
2017	59,478	32,965	92,443
2018	57,339	30,552	87,891
2019	56,629	28,343	84,972
2020 - 2024	323,086	107,365	430,451
2025 - 2029	323,276	41,529	364,805
2030 - 2032	<u>44,434</u>	<u>5,118</u>	<u>49,552</u>
Total	<u><u>\$975,221</u></u>	<u><u>\$318,367</u></u>	<u><u>\$1,293,588</u></u>

6. DESIGNATED NET ASSETS

The loan agreements with the United States Department of Agriculture - Rural Development for the loans discussed in note 5 above, requires the water system to set aside an amount equal to the annual installment of principal and interest due on all outstanding loans. At December 31, 2014, the water system was required to have \$23,604 set aside in reserve accounts. The water system had \$37,709 in reserve fund certificates of deposit at December 31, 2014.

The loan agreement with the Louisiana Department of Health and Hospitals (DHH) discussed in note 5 above, requires the water system to establish and maintain the following accounts:

2008 Debt Service Fund - monthly payments equal to 1/6th of the interest and administrative fee due on the next interest payment date and 1/12th of the principal due on any principal payment date that occurs within the next ensuing twelve months. Funds are

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana
Notes to the Financial Statements

to be used to pay principal, interest and administrative fees falling due.

2008 Debt Service Reserve Fund - monthly or annual payments until a maximum of \$34,000 has been accumulated within a period not to exceed five years from the date of the loan. Funds are to be used to pay principal and interest on loan as to which there would otherwise be default.

2008 Capital Additions and Contingencies Fund - monthly payments equal to 5% of the gross revenues of the preceding month after making payments required by the accounts described above. Such payments are to continue until a maximum of \$50,000 has been accumulated. Funds are to be used for extensions, additions, improvements, renewals, and replacements necessary to properly operate the water system and may also be used to pay principal and interest on the loan when there is not sufficient funds in the Debt Service and Debt Service Reserve Fund; however, the amount in the fund may not be less than \$5,000.

Amount set aside for DHH loan at January 1, 2014	\$99,117
Interest earnings	<u>21</u>
Amount set aside for DHH loan at December 31, 2014	<u><u>\$99,138</u></u>

The water system has not established three separate identifiable accounts as required by the loan agreement. The total amount designated for DHH loan requirements is maintained in one interest bearing checking account. The total amount required to be set aside in all accounts for the DHH loan at December 31, 2014 was \$88,583.

8. RELATED PARTY TRANSACTIONS

Point Wilhite Water System, Inc. contracted with a board member's brother in law to provide maintenance services to the water system. During the year ended December 31, 2014, the water system paid this individual \$76,980. The amount due this individual at December 31, 2014 was \$5,405.

9. SUBSEQUENT EVENTS

Point Wilhite Water System, Inc., has evaluated subsequent events through May 18, 2015, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

SUPPLEMENTAL INFORMATION
As of and For the Year Ended December 31, 2014

**COMPENSATION, BENEFITS AND
OTHER PAYMENTS TO AGENCY HEAD**

The Schedule of Compensation, Benefits and Other Payments to Agency Head is presented in compliance with Act 706 of the 2014 Session.

STATUS OF PRIOR YEAR AUDIT FINDINGS

The follow-up and corrective action taken on all prior year audit findings is presented in Schedule 2.

SCHEDULE OF INSURANCE POLICES IN FORCE

The Schedule of Insurance Policies in force is presented in compliance with the loan agreement with the Louisiana Department of Health and Hospitals Drinking Water Revolving Loan Fund.

Schedule 1

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

**SCHEDULE OF COMPENSATION, BENEFITS AND
OTHER PAYMENTS TO AGENCY HEAD**

For the Year Ended December 31, 2014

BOARD COMPENSATION

Agency Head - Robert Mears - President

NONE

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

STATUS OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended December 31, 2014

Reference Number	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken	Planned Corrective Action
2013-1	2012	Improper Segregation of Duties	No	See current year finding 2014-1.
2013-2	2012	Failure to Terminate Service to Customers with Overdue Balances	Yes	N/A
2013-3	2013	Audited Financial Statements Submitted After State Deadline	Yes	N/A
2013-4	2013	Cash Misstated	Yes	N/A
2013-5	2013	General Ledger and Bank Reconciliations Not Timely	Yes	N/A
2013-6	2013	Adjustments to Customer Accounts Receivable	Yes	N/A
2013-7	2013	Customer Meter Deposits Not Segregated from Operating Cash	No	See current year finding 2014-2.

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

SCHEDULE OF INSURANCE POLICIES IN FORCE
For the Year Ended December 31, 2014

Insurer	Amount of Coverage	Risks Covered	In Effect
CNA Surety	\$60,000	Position Bond	3/10/2014 - 3/10/2015
American Alternative Insurance Corporation	\$29,190	Property	02/25/2014 - 02/25/2015
American Alternative Insurance Corporation	\$3,000,000	General Liability	02/25/2014 - 02/25/2015
American Alternative Insurance Corporation	\$5,000- \$10,000	Commercial Crime	02/25/2014 - 02/25/2015
American Alternative Insurance Corporation	\$3,000,000	Public Officials and Management Liability	02/25/2014 - 02/25/2015
LWCC	N/A	Workers Compensation	06/29/2014 - 06/29/2015

Independent Auditor's Report
Required by *Government Auditing Standards*

The following independent auditor's report on internal control over financial reporting and on compliance and other matters is presented in compliance with the requirements of *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Louisiana Governmental Audit Guide*, issued by the Society of Louisiana Certified Public Accountants and the Louisiana Legislative Auditor.

M. CARLEEN DUMAS
Certified Public Accountant
369 Donaldson Road. Calhoun, Louisiana. Telephone 318/644-5726

Independent Auditor's Report on
Internal Control Over Financial Reporting and on
Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

BOARD OF DIRECTORS
POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

I have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Louisiana Governmental Audit Guide*, issued by the Society of Louisiana Certified Public Accountants and the Louisiana Legislative Auditor, the financial statements of Point Wilhite Water System, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year ended then ended, and the related notes to the financial statements, and have issued my report thereon dated May 18, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Point Wilhite Water System, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Point Wilhite Water System, Inc.'s internal control. Accordingly, I do not express an opinion of the effectiveness of Point Wilhite Water System, Inc.'s internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Year Findings and Management's Corrective Action Plan, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the

Member of the American Institute of Certified Public Accountants
Member of the Society of Louisiana of Certified Public Accountants

BOARD OF DIRECTORS
POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana
Independent Auditor's Report
on Compliance and on
Internal Control, etc.,
December 31, 2014

deficiency described in the accompanying Schedule of Current Year Findings and Management's Corrective Action Plan as 2014-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in the accompanying Schedule of Current Year Findings and Management's Corrective Action Plan as 2014-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Point Wilhite Water System, Inc.'s financial statements are free from material misstatement, I performed tests of the water system's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Current Year Findings and Management's Corrective Action Plan as 2014-3 and 2014-4.

Point Wilhite Water System, Inc.'s Response to Findings

Point Wilhite Water System, Inc.'s response to the findings identified in my audit is described in the accompanying Schedule of Current Year Findings and Management's Corrective Action Plan. Point Wilhite Water System, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the water system's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the water system's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/s Carleen Dumas
Calhoun, Louisiana
May 18, 2015

POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana

Schedule of Current Year Findings and
Management's Corrective Action Plan
For the Year Ended December 31, 2014

Section I - Summary of Auditor's Reports

Financial Statements

1. Type of auditor's report issued - Unmodified.
2. Internal control over financial reporting:

Material weakness(es) identified? - Yes
Significant deficiency(ies) identified? - Yes
3. Noncompliance material to financial statements noted? - Yes

Section II - Financial Statement Findings

2014-1. Inadequate Segregation of Accounting Duties

Criteria: Proper internal controls require that accounting duties be performed by separate individuals so that one individual could not perpetrate and conceal errors or irregularities without them being detected by another individual who was performing his or her assigned duties.

Condition: All accounting duties are performed by the contract accountant with little oversight by the Board of Directors.

Effect: Errors or irregularities may not be detected within a timely period.

Recommendation: None

**Management's Response
and Corrective Action Plan:** It is not economically feasible to correct this deficiency based on the size of the water system.

BOARD OF DIRECTORS
POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana
Schedule of Current Year Findings and
Management's Planned Corrective Action

**2014-2. Need to Improve Controls Over Maintenance of
Accounting Records**

Criteria: Management is responsible for establishing internal control policies and procedures that provide reasonable assurance that assets are safeguarded against loss resulting from unauthorized use and accounting records are maintained in such a manner that allow for the timely preparation of financial statements in accordance with generally accepted accounting principles.

Condition: 1. 10 out of 45 customer payment batches examined were deposited in the bank at least one week after the date they were posted to the customers' accounts. All of these exceptions occurred prior to July 1, 2014.

2. Reconnect fees collected from customers were posted to the general ledger as water revenue instead of reconnect fees.

3. Customer meter deposits for approximately 376 active customers have not been posted to the customers' accounts resulting in a \$20,934 difference between the customer meter deposit liability recorded in the general ledger and the total customer meter deposit liability recorded in the customers' accounts.

4. As reported in prior year audit report, refundable customer meter deposits are not being held in a separate bank account.

Effect: The failure to deposit customer payments in a timely manner could result in the loss of assets due to theft or error. The failure to maintain accounting records in such a manner that allows for the timely preparation of financial statements in accordance with generally accepted accounting principles could result in a material misstatement of the financial statements. Depositing refundable customer meter deposits in the operating account could result in the monies being used for operating purposes.

BOARD OF DIRECTORS
POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana
Schedule of Current Year Findings and
Management's Planned Corrective Action

Recommendation: I recommend that bank deposits be made at least once per week and that all funds on hand be deposited. I recommend that reconnect fees be posted as reconnect fees in the general ledger in order to properly track and report these payments. I recommend that all active customer accounts be reviewed and a determination made as to whether the customer's meter deposit has been properly recorded in the customer's records. Customer meter deposits should be maintained in a bank account that is separate from the operating funds of the water system to ensure that the water system maintains sufficient funds on hand to refund customer meter deposits.

Management's Planned

Corrective Action: Bank deposits will be made at least weekly and all funds on hand will be deposited. Reconnect fees will be posted as reconnect fees in the general ledger. Customer accounts will be reviewed and updated for meter deposits as soon as possible. A separate customer meter deposit account will be established and all new meter deposits will be deposited into this fund. Transfers will be made to this new account as funds become available until the balance in the customer meter deposit account is equal to the customer meter deposit liability.

2014-3. Failure to Comply with Requirements of Loan Agreement

Criteria: The loan agreement with the Louisiana Department of Health and Hospitals (DHH) requires that the water system establish and maintain three separately identifiable bank accounts and provides for how these bank accounts are to be funded.

Condition:

1. The water system has set aside \$99,138 in a checking account that it has designated as reserve funds for the DHH loan. Although, the balance in the account exceeds the total amount required by DHH to be on deposit, the amount is not separated into the three separate identifiable accounts as required by the loan agreement.
2. The loan agreement requires that the water system transfer 5% of gross revenues to a Capital Additions and Contingency Fund on a monthly basis to be used for improvements to the water system. The water system did not fund the Capital Additions and Contingency Fund as required by the loan agreement.

BOARD OF DIRECTORS
POINT WILHITE WATER SYSTEM, INC.
Downsville, Louisiana
Schedule of Current Year Findings and
Management's Planned Corrective Action

Effect: The failure to perform any obligation under the loan agreement could constitute an event of default on the loan.

Recommendation: I recommend that the water system establish, maintain, and fund the Debt Service Fund, Debt Service Reserve Fund and the Capital Additions and Contingency Fund in accordance with the terms specified in the loan agreement.

Management's Planned

Corrective Action: The accounts required by the loan agreement will be set up in the general ledger and monthly bank transfers will be made in accordance with the terms specified in the loan agreement.

**2014-4. Failure to Apply for Tax-Exempt Status With
the Internal Revenue Service**

Criteria: In order to be exempt from paying federal corporate income taxes, nonprofit organizations are required to apply for tax exempt status with the Internal Revenue Service.

Condition: The water system has not applied for tax exempt status with the Internal Revenue Service and therefore has not filed Form 990, Return of Organization Exempt From Income Tax, that is required to be filed annually by tax exempt organizations.

Effect: The failure to apply for tax exempt status could result in the Internal Revenue Service requiring that the water system pay federal corporate income taxes on its earnings.

Recommendation: I recommend that the water system file an application with the Internal Revenue Service to be recognized as a tax exempt organization and thereafter begin filing Form 990 on an annual basis.

Management's Planned

Corrective Action: The accountant for the water system will file an application with the Internal Revenue Service to obtain recognition as a tax exempt organization.